

Prepared for Your Agency:
GASB 43 & 45 OPEB Compliance Plan

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CalPERS Response to RFP**

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C. Profile of the Firm

1. The California Public Employees Retirement System (CalPERS) is a California state agency.
2. The CERBT program is managed under authority of the CalPERS Board of Administration. The Board is the sole trustee of the fund.

Day to day administration of the CERBT program is delegated to CalPERS management working out of the headquarters in Sacramento, CA. Currently there are three administrative staff personnel, three accounting professionals, and an appropriate number of investment management staff who work on the CERBT program. As the program grows, staffing levels will grow accordingly. In addition to those assigned directly to the CERBT program, the services of many other functional areas are utilized for this program including, IT, audit, actuarial, contract, legal, and executive staff members. The majority of CalPERS staff are civil service state employees, and subject to all conditions of such employment. The staff of CalPERS Investment Office is an inter-disciplinary team with wide-ranging and internationally recognized expertise.

3. The California Public Employees' Retirement System (CalPERS) administers pension and health benefits for approximately 1.5 million California public employees, retirees, and their families. As of June 30, 2007, we provided benefits to 1,086,900 active and inactive members and 455,208 retirees. CalPERS membership is divided approximately in thirds among current and retired employees of the state, schools, and participating public agencies. The CalPERS pension is a defined benefit pension plan. It provides pension benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

The CalPERS health benefits program offers members and contracting employers three health maintenance organizations, two preferred provider organizations, and three special PPO's for members who belong to specific employee associations.

CalPERS was established by state law in 1932 to provide retirement benefits for state employees. In 1939, public agency and classified school employees were allowed to participate. In 1962, state law authorized CalPERS to provide health benefits to state employees. The health benefits program was expanded in 1967 to include public agency and school employees. In 1995, CalPERS began offering a supplemental deferred compensation retirement savings plan to members of public agencies that contract for it, and long-term care insurance on a not-for-profit basis. In 2007, the California Employers' Retiree Benefit Trust (CERBT) was established to allow public employers to contribute funds into an irrevocable trust to help fund Other Post Employment Benefit (OPEB) obligations.

4. The California Public Employees' Retirement System (CalPERS) was founded in 1932 and is the largest public pension fund in the U.S., managing more than \$250 billion in assets for more than 2,500 California employers. In 1988 and 2007 enabling statutes and regulations were enacted which permitted CalPERS to form the California Employers' Retiree Benefit Trust Fund (CERBT) – a Section 115 Trust – for the purpose of receiving employer contributions that will pre-fund health and other post-employment benefit costs for retirees and their beneficiaries. CalPERS is the second largest health care provider in the U.S. and offers a variety of health plans to employers contracting under the Public Employees' Medical and Hospital Care Act.

The 13 member CalPERS Board of Administration oversees operations, and consists of 6 officials elected by CalPERS members, 2 officials appointed by the Governor, 1 official appointed by the Speaker and Senate Rules Committee, and 4 statutory officials (the State Treasurer, State Controller, Director of the Department of Personnel Administration, State Personnel Board designee).

CalPERS clientele include over 2,000 organizations including state and local employers as well as various school and community college entities.

5. CalPERS is not a private company subject to merger, acquisition, or bankruptcy, and owns no affiliates or subsidiaries. CalPERS is obligated by state law to act for the benefit of participants in our programs. As a public retirement system, CalPERS is governed by the constitution and laws of the State of California under administrative control of the CalPERS Board of Administration. The CalPERS Board is comprised of 13 members, six of whom are elected members of the retirement system. The State Controller, the State Treasurer, and appointees of the Governor and Legislature comprise the other Board members. The composition of the Board is established by statute. The Board meets regularly to conduct the business of the system in open session. We maintain our headquarters in Sacramento and eight regional offices throughout California.

The California Employers Retiree Benefit Trust (CERBT) administered by CalPERS is a constitutional and statutory retirement benefit trust. As trustee of the fund, the CalPERS Board has exclusive fiduciary responsibility over assets in the CERBT, and the duty to administer the fund for the exclusive benefit of participants in a manner assuring delivery of benefits and services at reasonable cost. In order to take advantage of CalPERS expertise, the Board designated that the funds be managed by its internal investment staff.

CalPERS supplements the expertise of its internal staff by contracting with outside experts using a rigorous, competitive selection process. We monitor contractor performance regularly according to pre-established objective performance standards. We regularly audit our own financial records and internal administrative procedures, as well as those of our external contractors using both internal auditing staff and an independent external auditor.

There have not been any significant changes to the organization related to the CERBT except the addition of staff as the fund operations have come on line. In the fall of this year, the CERBT Program Manager position was created and filled in order to provide for the ongoing daily management of the administrative functions. As the fund participation grows, additional staff will certainly be added as required (subject to the formal budget approval process).

There are no pending legal or administrative proceedings related to the CERBT in which or to which CalPERS is a party. There are no legal matters pending which CalPERS believes would either (a) materially impair our ability to perform the services enumerated herein and for which this RFP was issued or (b) if decided in an adverse manner, materially affect the financial condition of CalPERS. CalPERS believes that there are no known or perceived actual or potential conflicts of interest with the exception that your agency employees and officials may participate in your agency's OPEB plan for retiree medical insurance which is the subject your agency's RFP.

D. Qualifications and Experience

1. The CERBT has been in existence since March of 2007. Currently there are 19 agencies that have contracted to participate in the CERBT and many more are in the process. Ultimately CalPERS expects hundreds of agencies to join the trust fund. Because the CalPERS is a governmental agency and not a private sector entity, the description of staffing and related qualifications with regard to this project will be framed in that context
2. The CERBT program is managed under authority of the CalPERS Board of Administration. The Board is the sole trustee of the fund. The day to day administration of the CERBT program is delegated to CalPERS management, including: Rand Anderson and Bruce Eastes.
3. The qualifications of the CERBT program managers are as follows:

Rand Anderson manages the CalPERS Constituent Relations Office, which houses the California Employers' Retiree Benefit Trust (CERBT) program, Conference Services, and the Account Manager program

Prior to working in Constituent Relations, Rand held several management positions in the public and the private sectors. For six years he was a manager in the CalPERS Actuarial Office. In the private sector, Rand held management positions in marketing, finance, and as chief operating officer at US electronic manufacturing companies. He has worked often in Europe and in Asia, both as a manager and as a management consultant.

Rand earned an MBA degree from Stanford University's Graduate School of Business and Bachelor degrees in mathematics and literature from CSU, Sacramento.

Bruce Eastes is the CERBT program manager. Before joining the CERBT program team, Bruce worked for four years in the CalPERS Actuarial Office, most recently as senior actuarial assistant.

Prior to joining CalPERS, Bruce worked for more than 20 years in the private sector as a manager and a consultant. He worked in companies ranging in size from start-up to Fortune 100. Much of his work has focused on the areas of cost accounting, operations management, and actuarial cost analysis.

Bruce earned a BA in Economics from Wofford College and has approximately 2 years of graduate level coursework in accounting and finance.

E. Trust and Fiduciary Services

1. CalPERS has already established the CERBT fund, as an irrevocable Section 115 trust, available to public employers seeking to prefund their OPEB obligations. The California Employers' Retiree Benefit Trust (CERBT) was created in 2007. There are currently 19 California public employers that have contracted with CalPERS to fund OPEB's (in whole, or in part) with a CERBT account and many more are involved in the application process. The current expectations are that within two years from inception, hundreds of public agencies will be participating in the program. The CERBT investments are managed by the same talented professionals that manage CalPERS Public Employees' Retirement Fund (PERF). CERBT managers intend to maintain asset allocations similar to the PERF with the expectation of achieving similar rates of returns. Please see the Attachment pertaining to the CERBT Investment Policy.
2. Since we have already established the CERBT and have agencies participating in the fund, your agency would need only to follow the steps listed below in order to join the CERBT.

To participate in the California Employers' Retiree Benefit Trust Fund (CERBT), a public agency will need to do the following.

- Hire an actuarial consulting firm to perform the valuation work using the Actuarial Assumptions and Methods (Attachment) prescribed by CalPERS. The employer may obtain from CalPERS a list of consulting actuarial firms (Attachment) that indicate they are capable of providing OPEB valuations, per the CERBT participation agreement, for California public agencies.
- If the public agency contracts for CalPERS health benefits, they may wish to request a CalPERS participant data extract for their use in performing the valuation.

- Provide the actuarial firm with the Summary of Actuarial Information Required for CalPERS Financial Statements (Attachment). Ask the actuarial firm to complete the required information on the spreadsheet and save it on a diskette or CD.
- Complete the Certification of OPEB Actuarial Information (Attachment)
- Complete the Certification of Funding Policy (Attachment).
- Complete and provide two original signed copies of the Agreement and Election to Prefund Other Post Employment Benefits (Attachment).
- Complete the Delegation of Authority to Request Disbursements (Attachment).
- Present the Agreement and the Delegation of Authority to the Employer's governing body for adoption and approval.

Once completed, the public agency must send the following items to CalPERS:

- Copy of the Actuarial Valuation Report
- Summary of Actuarial Information Required for CalPERS Financial Statements on CD or diskette
- Two signed originals of Agreement and Election to Prefund Other Post Employment Benefits
- Delegation of Authority to Request Disbursements
- Certification of OPEB Actuarial Information
- Certification of Funding Policy

CalPERS will process the package and mail an acknowledgment letter to you. The letter will state that either further action is required or the Agreement is approved. CERBT staff will review the package for completeness and respond in not longer than 2 weeks. If the package is complete, we'll enclose an original copy of the Agreement that includes the approval date.

Contributions will be accepted as soon as seven days after CalPERS approves the Agreement. The minimum contribution will be the lesser of \$5,000 or the annual required contribution as that term is defined in GASB Statement no. 45. Employers may contribute as frequently as they wish, however, they must contribute at least \$5,000 per contribution. Employers paying by check must submit a completed Contribution by Check Transmittal Form (Attachment) along with the check payable to CalPERS. For employers paying by wire transfer, CalPERS will provide a Remittance by Wire Transfer (Attachment) form and wire instructions. The Remittance by Wire transfer form must be returned to CalPERS before the wire transfer is initiated to ensure proper crediting to your prefunding account.

All requests for disbursement must be in writing and include a certification that the monies will be used for the purposes of the OPEB Prefunding Plan. The requests must be signed by an individual authorized by the employer to request disbursements from the Plan. Disbursements are made to the employer to reimburse for documented OPEB expenditures.

Actuarial valuations are required biennially or as otherwise required by GASB and directed by CalPERS.

F. Investment Management Services

1. We believe that we comply with your requirements related to being a qualified investment manager with “a solid track history for maximizing investments returns within guidelines stipulated in an adopted Investment Policy specific for an OPEB trust”.

2. Investment related issues

i. Investment Policy

CalPERS Investment Policy complies with federal and state requirements applicable to a tax qualified fund. Please see Attachment (A). The CERBT is a Section 115 trust, irrevocable under the definition provided in GASB 45, established for the purpose of prefunding OPEB obligations.

The CERBT performance objective is to generate a long-term total return that meets or exceeds the actuarial investment return rate assumption. In order to increase the investment opportunities available to the CERBT, funds shall be coinvested with those held by the PERF.

CalPERS Investment Office currently operates under a variety of policies vetted before the public at various meetings of the CalPERS Board of Administration. There are currently 5-main policies for the Public Employees’ Retirement Fund (PERF) that address Alternative Investments, Equity Investments, Fixed Income Investments, Real Estate Investments, and Miscellaneous Investments. Please see Attachments (A & B). The CERBT is managed in accordance with the CalPERS Statement of Investment Policy for Asset Allocation Strategy approved by the Investment Committee and in a manner consistent with Board-Approved Policy governing each asset class.

ii. Investments

The CERBT assets will be managed by CalPERS investment staff and, if appropriate, by contracted external money managers. CalPERS monitors contractor performance regularly according to pre-established objective performance standards. We routinely audit our own financial records and internal administrative procedures, as well as those of our external contractors using both internal auditing staff and an independent external auditor.

CalPERS invests the fund assets in accordance with the CalPERS OPEB Trust Investment policy. The policy provides assurance that investment risks and returns associated with the fund are prudently controlled. As trustee of the fund, the CalPERS Board has exclusive fiduciary responsibility over assets in the CERBT, and has the duty to administer the fund for the exclusive benefit of participants in a manner assuring delivery of benefits and services at reasonable cost.

CalPERS will send quarterly reports to CERBT participant employers detailing account activity. CalPERS operates a dedicated toll-free Employer Contact Center in order to answer agency questions regarding all lines of CalPERS products and services including the OPEB prefunding program. Any OPEB issues not resolved at the initial point of contact will be escalated to CalPERS CERBT staff. In addition, CalPERS maintains a web site, www.calpers.ca.gov, containing an abundance of facts regarding the CERBT program including all the information and forms your agency will need in order to participate.

iii. Asset Allocation

CalPERS Investment Office manages nearly \$250 billion in pension assets with a net rate of return for the 5-years ending July 31, 2007 of 13.80%. The starting point and most important element of CalPERS successful return on investment is our asset allocation - our diversification among stocks, bonds, cash and other investments.

Asset allocation is not an asset-only or liability-only decision. All factors, including liabilities, payments, operating expenses, and contributions are taken into account in determining the appropriate asset allocation mix. Our goal is to maximize returns at a prudent level of risk - an ever-changing balancing act between market volatility and long-term goals.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. Policy targets are typically implemented over a period of several years on market declines and through dollar cost averaging.

The CERBT asset allocation mix by market value and policy target percentages are as follows:

The California Employers' Retiree Benefit Trust Strategic Asset Allocation

Asset Class	Policy Allocation	Policy Range
U.S. Equity	35%	30%-40%
Int'l Equity	29%	24%-34%
REITs	10%	7%-13%
U.S. Fixed Income	20%	17%-23%
High Yield	6%	3%-9%
Cash Equivalent	0%	0%

The expected rate of return for the CERBT allocation is: 7.75%

The expected risk for the CERBT allocation is: 11.91%

The return/risk for the CERBT allocation is: 0.65

The restrictions, prohibitions, and permissible securities of the CERBT are defined in the Board-Approved Policy governing each asset class as follows:

- U.S. Equity: Pooled S&P 500 Equity Index Fund – Internally Managed
- International Equity: Equity Index Funds – Internally Managed
- REITs: Enhanced CORE Index Public Real Estate Equity Securities – Internally Managed
- U.S. Fixed Income and High Yield: Dollar-Denominated Fixed Income Program
- Cash: Dollar-Denominated Short-Term Program – Internally Managed

iv. Reporting, Performance, Evaluation, and Reallocation

As a public pension plan, CalPERS operates in a world of transparency, accountability, and independence exclusively to the benefit of plan participants. CalPERS Investment

Policy and sub-policies are public information, and with the exception of some closed sessions approved by law, CalPERS Board of Administration meetings and sub-committees (i.e., Health Committee, Investment Committee, etc.) are open to the public. CalPERS Office of Public Affairs issues news releases on a daily basis that cover a variety of issues, including updates on federal and state legislation, to investment performance.

The CalPERS CERBT program staff is available to assist contracting CERBT employers with questions regarding their account activities. The CERBT produces quarterly statements for all contracting employers regarding account assets. Recommendations for asset class and allocation mixes changes are brought before the CalPERS Investment Committee and the full CalPERS Board of Administration. Investment decisions that require confidentiality are done so as infrequently as possible with as much public notification as possible. In such instances the CalPERS Public Affairs Office will communicate the reason for the closed session, a general outline of the items to be discussed, and the outcome of the session.

CalPERS recently implemented the large-scale CalPERS Risk Management System - a comprehensive framework for measuring, monitoring, and managing risk. The key goals of the Risk Management team are to achieve an enterprise-wide view of the investment and risk profile at CalPERS, increase return on risk taken, and establish an appropriately focused institutional approach to risk management. Effective data management is necessary for the information generated from the Risk Management System to be timely and accurate. The new system included the development of a central data repository for all investment information. This allows us to capture each and every piece of portfolio and benchmark data, streamline modeling, reconciliation, and reporting processes. The system provides for online monthly, and soon weekly, risk reports to investment decision-makers, providing enhanced opportunities for additional investment returns.

The CalPERS Risk Management System helps us to answer the question "how are we doing?" It provides CalPERS with a methodology to integrate returns with risk management and to incorporate risk targeting and measurement into the daily portfolio management process. The system design provides flexibility and scalability to grow with our future requirements. The flow of information to the investment community is virtually instantaneous. Capturing this information in a timely manner is critical to making investment decisions. Recent world events have demonstrated the need to react with opportune evaluations. We are continuously enhancing our current risk management process and providing our investment professionals a consolidated and timely enterprise-wide view of risk.

The Investment Committee receives in-depth analysis of the risk impact to CalPERS Total Fund of proposed investment opportunities. The risk management unit publishes a monthly newsletter summarizing changes in risk within the asset classes and Total Fund, as well as reporting on special risk-related topics. Risk management will continue to be a driving force in the decision-making process used to manage the CalPERS portfolio.

G. Program Coordinator/Sponsor

CalPERS is the CERBT Program Sponsor and will coordinate the posting of asset transfers, contributions, and reimbursements to and from the fund and will manage all investment activities.

H. GASB 43 & 45 Consulting Services

Your agency will provide CalPERS with actuarial valuations completed by your consulting actuary and you will prepare your financial statements in accordance with the requirements of GASB 43 and 45. We will publish annual Net Asset and Changes to Net Asset schedules that will provide details of assets held in the trust on your behalf. These statements will be provided on a preliminary quarterly basis (reflecting gross investment returns without expenses) and annually with the final investment returns (net of expenses). Your accounting personnel will need to confirm whether or not these will be sufficient to meet your GASB 43 & 45 reporting requirements (for example- if you have other assets or liabilities not flowed through the CERBT). We will publish Required Supplementary Information (RSI) schedules that will include the Funding Progress and Employer Contributions for agencies participating in the fund on an aggregated basis.

The CalPERS Board of Administration is considering the possibility of offering valuation services for agencies participating in the CERBT. But because the effort (and budget) needed to develop the actuarial staff and tools required for this service would be substantial, careful consideration is being given to this potential future service offering. In the meantime, there are a number of qualified consulting actuaries available to public agencies to fulfill the needs of those agencies.

I. Program Fee Parameters

All fees will be netted annually against the investment earnings. Based on experience with the pension funds, it is expected that the investment returns will be 7.75% net of those expenses, over the long term. Trust participants will pay the costs of administering the trust, as measured and reported in the Comprehensive Annual Financial Report (CAFR). Fees will vary from year to year but are projected to range between 40 and 60 basis points per year.

There are no other fees, except as noted in the CalPERS CERBT participation in the event that the CalPERS Board of Administration authorizes an actuarial valuation due to an agency's non-performance of that requirement.